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while the products of Buzsák and the Mátyó region show the most riotous combinations of vivid colors, the former on a white, the latter on a black background.

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Other production centers of folk art together with their specialties are: Nagy-Alföld, Dunántúl: decorated leather coats and suba (a coat reaching down to the heels and made of sheepskin); Kúnság, Hajdúság, Kalotaszeg, Palócföld, Veszprém: embroidered szűr and other clothing, colorful homespun and woven tablecloths, rugs, and bedspreads; Torockó: clothing, embroidery; Mezőség: colorful cotton embroidery; Danube valley: pinked lace-like white embroidery; Szeged: embroidered slippers, corded men's clothing; Sárköz, Palócság: painted furniture and dishes and colorful pottery; Hódmezővásárhely, Mezőtúr, Palócföld: pottery, clay-decorated walls of houses; Göcsej, Southern Somogy: carved woodwork (rafters, grave-boards); Kalotaszeg, Kertobágy, Somogy and the Mátra region: carved utensils and furniture; Debrecen: caparisons, decorated honey cake; and Miskolc: decorated boots.

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The Magyar inhabitants of the mountainous territories of Erdély, especially the Székely, have developed the fine art

Annex "A," Subparagraph 3b, Economic Background

INDUSTRIAL POTENTIAL: CRAFTS

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As a result of the industrialization of Hungary, the production of non-agricultural goods gradually slipped out of the hands of the Magyar peasants to be manufactured in the industrial centers of the country. Only a few branches of the formerly varied and prosperous domestic industry have survived this progress. Certain products (e.g. wooden canteens, leather, clothing and candles) ceased to be in demand while some crafts, e.g. the manufacture of wood products; gave up trying to compete with the low cost of industrial production.

Thus, certain previously flourishing crafts have completely disappeared, among them: soap boiling, honeybread making, candle dipping, the production of leather goods, felt and broadcloth, and finally, horn and bone work. Others, such as wood working, are now on the verge of being discontinued among the rural population. Not too long ago it was the village wheelwright and joiner who satisfied with his skill the local demand for carts, furniture, etc. Nowadays, only the occasional herdsmen, who seem always to have been skillful wood carvers, continue to turn out small household utensils, primitive tools and souvenirs. A feature still common to the Magyar peasant courtyard is the <u>faragószín</u> ('wood cutting arbour') which now,

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178 however, accommodates a number of different activities.

In varying degrees, only three important branches of the home industry seem still to be alive: rushwork, spinning and weaving, and pottery making.

285 Native bulrush and reed furnish the material for the countrywide rushcraft. This work is performed by the men, who, with diversified techniques of plaiting and weaving, produce rush baskets and mats for various purposes. Ductile twigs and rods of willow, birch and hazel may also be used, especially for bigger orders, such as fencing.

286 Early in this century it was anticipated that competition from the textile industires would destroy the native craft of spinning and weaving. Nevertheless, the shortage in labor and raw materials brought about by the two world wars and the present scarcity of manufactured goods have served [462] to prolong the life of this craft. Spinning and weaving have long been an exclusively female occupation. The usual steps are followed by the women in the processing of hemp and flax (rarely nettle): gathering, steeping, rinsing, drying, dressing and combing, followed by spinning on a distaff (guzsaly) or on a spinning wheel (rokka). The thread is further processed before being woven on the loom. Implements used in this home industry, the distaffs, spinning wheels, looms and swingles, are often hand-made.

∞ The rich abundance of potter's clay throughout the Danubean basin,

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1



wage agreements, which before the war were settled by voluntary understanding between employers and work-people, became compulsory. They had to be negotiated by the respective trade unions and the employers' associations, and were subject to approval by the authorities. Another feature of altered conditions was the establishment of workers' councils in the factories. Their task was to watch over working conditions and the execution of social-welfare measures within the factories. Also delegates of these councils were entitled to attend the meetings of boards of directors and to inspect books.

Of the working population scheduled under industry a high proportion was engaged in handicrafts. According to the census of 1941, small-scale industry comprised 11 per cent of the active working population out of 23·5 per cent for industry as a whole. At the same time manufactures (i.e. units with more than twenty employees) contributed about 29 per cent, and small-scale industry 11·5 per cent to the national income, as estimated by the Institute of Economic Research. After the war the relative importance of handicrafts and small-scale industry was declining. Demand for their quality products diminished. Moreover, their raw-material supplies were deficient; priority was given to the requirements of large-scale industry, and, in particular, of those branches producing capital goods.

An outstanding feature of post-war economic developments was the levelling of inequalities of incomes with a considerably diminished national income. This naturally was closely connected with changes in the social structure. Big incomes from the ownership of land disappeared, but so did most of those formerly derived from other forms of property. Deposits and other classes of money claims were wiped out by the inflation, and the values of interest-bearing securities melted away. As to house property, its ownership remained, but the yield was practically nationalized, as after taxation nothing was left out of the controlled rent. Thus the rentier class was eliminated. In the census of 1941 it figures together with the pensioners, and the share of this composite group of the total population was then slightly over 4 per cent. In an economy of scarcity relatively big incomes were still earned by industrialists and dealers by evading price control. Outside this limited circle the levelling of incomes affected all classes of society, including the workers. The margin between the wages of skilled and unskilled, which had been substantial in pre-war Hungary, was markedly narrowed.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1



National Bank by an amnesty put in force for a limited period, relieving them from the penalty for omitting to do so prior to the monetary reform. Draconic penalties were at the same time announced for any new infringement of the exchange regulations.

The psychological and technical devices worked. It soon became evident that the farmers accepted the new money. Something like a normal interchange between the urban and agricultural sectors of the community, an interchange which had been badly shaken by the preceding monetary disorder, was re-established.

Stabilization was, of course, backed by budgetary measures. A comprehensive fiscal reform of taxation, with the aim of restoring a budgetary balance, had been prepared in advance, and was evolved on broad lines out of the pre-war taxation system. Each source of revenue was to be exploited to the utmost.

Accordingly, rates of taxation were raised considerably as compared with those in force prior to the war. This relates both to the income and property taxes and to those on consumption. Incomes exceeding 1,200 forint a year (£24 though higher in purchasing power than in England) were liable to income tax. The rate was fixed at 2 per cent in the lowest range. Incomes of 10,000 forint are taxed at a rate of 6·7 per cent. The income tax reaches maximum rates of 70 per cent for income from work and 80 per cent for income from property. These highest rates weigh upon incomes exceeding 84,000 forint. A surtax with rates ranging from 15 to 75 per cent was payable on earnings (net of tax) above 18,000 forint. An increased tax on house rent amounted to 60–80 per cent of the gross rent, leaving only 20 to 40 to cover upkeep. The purchase tax was raised from the pre-war range of 2–5 per cent to 3–10 per cent. The company tax had to be paid according to turnover, irrespectively of whether there was any net profit. The pressure placed on the taxpayer may be seen from the fact that the interest on tax arrears has been replaced by a subsidiary tax at a *monthly* rate of 10 per cent. These efforts, coupled with a severe restriction of current expenditure on goods and services, produced a marked improvement of the budgetary position. Yet the burden of reparations amounting to 1,436 million forint out of a total expenditure of 3,701 million, prevented the Government from securing a real balance. The improvement attained after the first transition period of reorganized tax administration is illustrated by the rise of the contribution of taxes and other current revenue to total receipts from only 18 per cent in August and 47 per cent in September 1946, to an average of 78 per cent for the whole

34 percent. Iron, metal and engineering showed a 41 percent increase. 433

Output of the principal goods is quoted on the basis of the percentage of output in the corresponding period of 1949 and the list of goods is very restricted. Output of coal was 20 percent, oil 3 percent, iron ore 16 percent greater. Output of power increased by 21 percent. The output of producer goods seems to have increased considerably more than that of consumer goods. Phosphate fertilizers, cement and tractors head the list with 132 percent, 109 percent and 91 percent increases, respectively. The production of woolen and cotton fabrics increased by 8 percent only.

The volume of building was claimed to have been as great in the month of March as in the first quarter of 1949. Private information received from Hungary substantiates the claim to high building activity. But most of the buildings seem to be government offices or factories.

It is claimed that the number of workers in mining, industry and building increased by 27,000. If the estimate of their number at the end of 1949 was correct, 440,000 in mining and industry and 130,000 in building, the increase amounts to 4 percent. Accelerated training courses had been completed by 13,400 apprentices, 5,300 of them in the iron, metal and engineering industries. It is not clear whether they were included in the figure quoted above. 464

Productivity in the heavy industries showed a slight decline against December 1949, the postwar peak, while light industry recorded a 7 percent improvement over the same period. Average hourly wages increased by 8 percent in the manufacturing industry, bringing with them a corresponding increase in real earnings as there was no change in the cost of living. Private sources report a shortage of some important foods which does not seem to be reflected in the cost-of-living index number. 461 465 433

Railway traffic is claimed to have surpassed the corresponding 1949 figures by 35 percent in ton-miles and 22 percent in passenger-miles. 497

Both the number and the turnover of state wholesale and retail stores and cooperative village stores were reported to have increased considerably. 438

Investments were 58 percent greater than in the corresponding period last year; that is, the state invested 1.2 billion forints against 0.7 billion last year. 454

Building activity has been speeded up. In comparison with the corresponding period last year, the volume of construction of buildings of all kinds was 152 percent greater and in other constructional work 237 percent. Over the period the number of workers engaged in construction work increased by 26,000.

At the same time an increase of 17,000 workers was claimed in the mining and manufacturing industries. As the increase was reported to be 31,000 in the first quarter of 1950, the total increase in the first half of the year would be 48,000. At the end of 1949 the total number of workers in mining and manufacturing was an estimated 440,000, and in building an estimated 130,000.

In contrast to the first quarterly report, the second quarterly report keeps silent on the question of productivity and wages.

Passenger-miles and ton-miles of the railways were above those in the corresponding period in 1949 by 32 percent and 18 percent respectively.

Both the number and the turnover of the state and cooperative village stores were reported to have increased considerably.

Investments of the state, now the only investor, amounted to 1.8 billion forints against 1.2 billions in the first quarter. Very reticent on the matter of finance, the report only states that the expanded investment program did not affect the balance of the budget.

A few weeks before the report[1] was published, the Chairman of the People's Economic Council reported on the progress of the people's economy to the Central Executive of the Hungarian Workers' Party. The picture he drew was in some ways more revealing than the text of the report, and fits better into the picture that can be pieced together from events and incidents reported in the party press, from information that trickles through, and from the government measures.

According to the statement, the wage bill in the manufacturing industry increased by 24 percent between April 1949 and April 1950, while the increase in real wages was even greater. Increases in other employment were smaller but still considerable. The Five Year Plan anticipated an overall increase in the standard of living of 35 percent in five years. But in the first four months of 1950, real earnings per capita in the manufacturing industry increased by 18 percent while this improvement was accompanied by an increase in productivity, as measured in volume of output per working hour, of only 9 percent. In comparison with prewar, the level of real earnings was 62 percent greater.

[1] [i.e. the second quarterly report of 1950 – Analyst]

## THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

[438] 382 Domestic consumption in 1946 was the same as prewar—260,000 tons. It remained relatively stationary at 265,000 tons during the Three-Year Plan years of 1947, [438] 439 1948, and 1949 and then began to rise again. Domestic consumption was calculated as 310,000 tons in 1950, 410,000 tons in 1951, and 460,000 tons in 1952. Subtracting these figures from the carefully established production figures of 475,000 tons for 1948; 490,000 tons for 1949; 490,000 tons for 1950; 475,000 tons for 1951; and 560,000 tons in 1952 we obtain the following exportable surplus figures: 210,000 tons in 1948; 225,000 tons in 1949; 180,000 tons in 1950; 65,000 tons in 1951; and 100,000 tons in 1952. While these figures must be treated with caution, they represent the only realistic appraisal of the export-import situation because of the absence of official data and because of the peculiar position of Hungary as a less and less distinguishable part of the over-all Soviet economic system. It must be kept in mind that the Soviet Union receives a part of the oil as its share of the Hungarian-Soviet Oil Company's production. The Soviet-owned Hungarian oil, if and when exported, is not listed under Hungarian exports by the Hungarian communist authorities. To confuse matters more, since 1949 Hungarian refineries have been processing ever increasing quantities of Austrian crude; the resulting refined products being shipped to the Soviet forces in Germany and to Czechoslovakia, Poland and western Romania. It is very doubtful whether these transactions are still being officially treated as Hungarian imports of crude and as Hungarian exports of refined products. They are more likely simple transactions of the Soviet Oil Combinat in Austria (the crude producer), the Soviet-controlled and partly Soviet-owned Maszovol refineries in Hungary (the refining agent) and the Red Army in East Germany and different Polish, Czechoslovak, and Romanian industrial trust and distribution agencies (the consumers). One can really no longer refer to Hungarian exports and imports.

In brief, Hungary was an oil-importing nation until the eve of World War II, when the Zala fields were discovered in 1937, and further discoveries made in 1940 and 1941. As domestic production increased imports fell off and in 1941 Hungary became an exporting nation.

besides obtaining brood stock from the state for the poorer farmers, they also secure the occasional loan of thoroughbred stock for breeding purposes. Up to date almost 20,000 large agrarian families have been aided on these lines. Welfare societies also help the poor farmers who are engaged in vegetable and fruit gardening, bee-keeping, silkworm culture, rabbit breeding and collecting medicinal herbs.

*Handicrafts.*

In several villages the welfare societies organized the villagers into different handicraft groups to alleviate the effects of seasonal unemployment during the winter. To foster the handicraft activities of the villagers, welfare societies advance the sale of their products and help them with the purchase of raw materials.

*Marriage Grants.*

Marriage grants to young people is one method of social welfare aid to the agrarian population. A noteworthy feature of the contracts governing these loans is that repayments are progressively cancelled upon the birth of each child. These loans of 1000 pengös made possible the foundation of many new Hungarian families. After the birth of the fourth child the outstanding part of the loan is automatically cancelled.

*Education.*

The National Folk and Family Protection Bureau is working on a project which will subsidize the education of the children of farm labourers. It is expected